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5 May 1987

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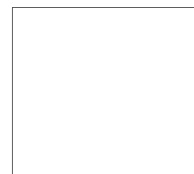
SUBJECT: Inter-Agency Meeting

TYPE OF MEETING	Economic Policy Council
DATE	Thursday, 7 May 1987
TIME	1100
PLACE	Roosevelt Room
CHAired BY	Baker
ATTENDEE(S) (probable)	NIO/Econ
SUBJECT/AGENDA	Report of Working Group on Agricultural Coordination
	Report of Working Group on R & D
	<i>Trade Legislation</i>
PAPERS EXPECTED	Agenda by COB 6 May
INFO RECEIVED	Per memo by Cabinet Affairs rec'd 5May

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Deane Hoffmann

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Remarks

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Executive Secretary

6 May '87

Date

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THE WHITE HOUSE
WASHINGTON

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: May 5, 1987 Number: 317, 317 Due By: _____

Subject: Economic Policy Council Meeting -- May 7, 1987 -- 11:00 a.m.

Roosevelt Room

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
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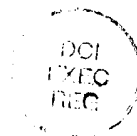
REMARKS:

The Economic Policy Council will meet on Thursday, May 7, 1987, at 11:00 a.m. in the Roosevelt Room. An agenda and background papers are attached for your review.

RETURN TO:

☒ Nancy J. Risque
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Associate Director
Office of Cabinet Affairs
456-2800
(Room 235, OE08)



THE WHITE HOUSE

WASHINGTON

May 5, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*
SUBJECT: Agenda and Papers for the May 7 Meeting

The agenda and papers for the May 7 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:00 a.m. in the Roosevelt Room.

The first agenda item will be a report from the Working Group on R&D regarding superconductivity. The Working Group has reviewed Government efforts in funding superconductivity research as well as plans to transfer superconductivity technology. A paper outlining Government efforts in superconductive materials is attached.

The second agenda item will be a report from the Working Group on Agricultural Coordination. The Working Group has prepared a plan for advancing worldwide agricultural reform, focusing on the New Round. Papers describing the U.S. proposal and other OECD nations' proposals are attached.

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ECONOMIC POLICY COUNCIL

May 7, 1987

11:00 A.M.

Roosevelt Room

AGENDA

1. Report of the Working Group on R&D
2. Report of the Working Group on Agricultural Coordination

Superconductivity
A Briefing Paper for The Economic Policy Council
May 7, 1987

Over the past few months, a series of scientific developments have occurred that could provide a tremendous opportunity for dramatizing and accelerating the President's goal of assuring American competitive preeminence into the 21st Century. During this time the scientific community has put out a series of announcements of technological breakthroughs in the development of superconductors, affecting the basic science of transmission and use of electric power, and electronic technology. The applications of these breakthroughs could be much broader and have as much or more economic impact as development of the transistor.

Superconductivity is the ability of a substance to transmit electricity with almost no resistance, which means little loss of power to heat in the transmission process. In a matter of months, scientists, building upon work that has been ongoing worldwide since the turn of the century, have been able to produce various metallic alloys that exhibit superconductivity at increasingly warmer temperatures than had been possible in the past. Until recently, superconductivity was observed in certain metals only at ultra cold temperatures approaching absolute zero (-459°F). The cost of the refrigeration needed to reach such temperatures, involving the use of liquid helium, is very high, and has severely limited the practical usefulness of the early discoveries. Now, technological advances point to the possibility of superconductivity at temperatures well above the temperature of liquid nitrogen, a fairly cheap coolant. If superconductivity becomes practical, potential economic applications could include revolutionary microelectronics, "superchips", and super fast computers; trains that operate at high speeds by floating on magnetic fields; less costly power generation and transmission; dramatic reductions in the size of electric motors; improved prospects for electric vehicles; and greatly enhanced, higher resolution medical imaging machines.

The rush of discoveries streaming from laboratories around the world has been breathtaking, but it is expected that it may take 20 years or more before the full potential of these discoveries is realized. When the potential is realized, however, the economic impact will be substantial, and almost entirely on the plus side.

As an example, superconductivity could produce substantial benefits in the energy area. Currently, long distance transmission of electricity is made more expensive by resistance in the wires, which results in 15 to 20 percent power loss. If electricity could

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be transmitted over vast distances without loss because of the development of superconducting wires that provide little or no resistance, there would be considerable savings. The country's electricity needs could be met using less fuel than at present, saving several billion dollars per year. Furthermore, power plants could become more efficient by using generators made with superconducting magnets, and power could be stored cheaply and easily for use during peak load periods.

Looking further ahead, if we allow for changes in the pattern of energy production and use, the benefits could be even greater. The country's energy demand could be satisfied to a significant extent by using cheaper, cleaner, safer and more secure energy sources and production methods than at present.

For example, superconductivity could lead to greater use of coal to generate electricity. Power plants could be located where the coal is mined, e.g., the Western States or the Appalachians, rather than shipping the coal at great expense to localities where power plants are presently located. Use of low sulfur western coal could reduce the cost of controlling acid rain and other forms of pollution, as would locating power plants farther from urban areas.

The ability to locate plants farther from urban areas might also improve prospects for nuclear power from a safety standpoint. It is even conceivable that super-magnets could be created to produce "magnetic bottles" strong enough to contain nuclear fusion reactions. This could lead to virtually unlimited electric power without most of the safety and hazardous waste products of fission plants.

Coal and nuclear power are domestic energy resources that could reduce our dependence on oil imports from insecure foreign sources in the production of electric power. On the demand side of the energy sector, the development of much smaller but far more powerful superconducting electric motors could make it feasible to produce and use efficient electrical cars rather than vehicles that require gasoline made from crude oil. The reduction in the cost of electricity might increase the use of electric heating and also reduce the demand for heating oil. These developments could be especially important as domestic production of oil declines in the years ahead.

Outside of the energy area, superconductivity could enhance national security through its application in supercomputers. These would have significant advantages in the development of the Strategic Defense Initiative, in addition to obvious commercial uses.

There may be some concern over the prospect of a significant decline in the demand for the products of certain industries, e.g.,

reduced demand for gasoline for transportation, reduced demand for cars powered by internal combustion engines, and reduced use of copper wire and traditional motors or generators. Theoretically, a sudden decline in the demand for such products could injure firms which are heavily invested in capital which is specific to production of these products. However, there does not appear to be any reason to think that this will be a significant problem in practice, for several reasons.

First, there will be no sudden shocks to major industries. While some breakthroughs have been made in the basic science, large scale commercial applications remain years in the future. Consequently, it is unlikely that any displacement of existing industries could occur in the near future, or come so rapidly as to create major adjustment problems.

For one thing, the new superconducting materials are basically ceramics, and are brittle. For use in power transmission, motors, and computer chips, the materials must be drawn into wires or thin films, which requires considerable ductility. In addition, extensive experimentation to reach higher temperatures with cheaper materials is needed, and a multitude of design and development problems must be overcome. A critical initial problem that needs to be resolved is that the amount of electrical current that can be pushed through the new superconductor is so small that in their present state they have only limited practical usefulness. Scientists seem confident that they can solve this current-density problem but it will take time. Even after the current-density problem is solved, it will take time for scientists and engineers to come up with a way to design and produce the new superconductor materials in the form and quantity needed for practical applications.

Second, in most cases, the new technologies and products will be developed and produced by companies currently in the field. Companies now producing gasoline-powered cars will have significant expertise and capital advantages in the production of electric-powered cars. Leading computer firms will have substantial advantages in using new "superchips" to produce new supercomputers. These firms are also likely to be leaders in the research leading to commercial applications. Other firms with limited research capabilities may become end users, acquiring access through purchase, licensing, merger or acquisition. In most cases, the transition to new products will be accomplished gradually. In most cases, old capital will continue to wear out before becoming technologically obsolete, and firms will gradually introduce the new technology in the normal course of replacing old plant and equipment.

In the case of the oil and gas industry, a number of factors must be weighed. Petroleum and natural gas will always be essential as feedstocks for petrochemicals. Although superconductivity may bring about some reduction in the demand for

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gasoline, it is unlikely that electric vehicles will dominate the market for long distance transportation. There may be some relative shift in favor of coal and nuclear fuel to generate electric power, and some shift in favor of electricity for home heating. However, energy companies are often diversified, with interests in several fuels. In fact, these developments may induce them to shift exploration funds into diversification and research into the new technologies. There is ample time for them to do so. Most importantly, U.S. oil production is gradually declining as old fields become depleted. Thus, fuel-saving and fuel-switching technologies based on superconduction are likely to coincide roughly with the natural decline in U.S. petroleum output, with no disadvantage to the petroleum industry, and with major benefits to the nation in terms of the balance of payments and energy security.

In brief, superconductivity is likely to be of major economic benefit to the nation. Negative impacts, if any, should be minor. This landmark scientific advance should be viewed as expanding our economic horizons, pushing back limits on our standard of living and creating greater opportunities for growth and employment.

Federal Involvement

The scientific community and others are urging the Federal Government to move expeditiously to optimize its efforts at research and development in the superconductivity area and to facilitate the transfer and commercialization of its direct efforts, and the integration of its efforts in this area with those in the private sector. Unless we move with great speed, there is apprehension that other countries, and in particular Japan, will move ahead quickly to organize their research capabilities into a program with strong commercial goals that would enable them to gain the edge on the U.S. in commercializing the superconductivity research to date done largely, although not exclusively, in Federal and private U.S. laboratories. By achieving this edge in an area that promises to have revolutionary scientific and economic impacts, the concern is that this country would again lose out to others by failing to capitalize on the advances resulting from our pioneering basic research and innovation.

Exploiting the benefits of science and technology is fundamental to U.S. competitiveness. President Reagan has announced a number of measures to help generate new knowledge in the sciences and advanced technologies and to transfer swiftly technologies to the marketplace.

One key measure is Executive Order 12591 issued on April 10, 1987. This Executive Order directs Federal agencies to implement programs that will encourage their scientists to facilitate the commercialization of their research and innovation; help the

private sector exploit fully foreign science and technology; seek out "science entrepreneurs" to act as conduits between the public and private sectors for technology transfers and commercial spin-offs from Federal research and development efforts; and facilitate the prompt and efficient dissemination of information on foreign research and technology developments to the private sector.

Federal research activities on superconductivity provide a timely opportunity for testing the usefulness and effectiveness of Executive Order 12591. The Federal Government has been involved in superconductivity research for many years, particularly in the Department of Defense, Department of Energy, NASA, and the NSF. No single Federal agency is coordinating the Government's efforts to exploit the most recent developments, nor do we know how much the U.S. in the aggregate, or the Federal Government by itself, is spending on superconductivity research. The following summarizes the current efforts of the Federal Government in this area.

Department of Energy

- ° The Department of Energy (DOE) has traditionally had the largest Federal program in superconductivity, spanning the basic research on theory and structure to the actual construction and use of engineering devices. The DOE role in this effort has been to: a) enhance our understanding of the properties of materials and the phenomenon of superconductivity through programs at DOE laboratories and universities; b) apply the technology of superconductivity to the department's programs in fusion, accelerator physics, and electrical energy transmission, generation and storage; and c) involve industry to the maximum extent possible through the manufacture of superconducting materials and the design of devices.
- The major DOE labs have redirected about \$10 million of their existing resources into team efforts to attack various aspects of producing and testing the new superconducting materials.
- DOE also spends another \$15 million on research and development associated with more conventional superconductors. This research is directed at metallic superconducting alloys and at developing techniques for fabricating these alloys into practical conductors.
- The Department is publishing a newsletter to disseminate to investigators outside DOE the flow of information that is being generated among all the DOE-supported investigators.

Department of Defense

- Following the breakthrough last year in high temperature superconductivity, DOD doubled its research effort to around \$10 million. Current DOD efforts involve DOD labs, universities and non-DOD Federal Research Centers; DOD is coordinating with laboratories and research programs of other Federal agencies, and participating in symposiums with other agencies, industry and universities.
- DOD research objectives are to achieve higher transition temperatures, greater current carrying capacity and improved flexibility of material.

National Science Foundation

- The National Science Foundation (NSF) has allotted an additional \$1 million for research on superconducting materials by teams at three of the Materials Research Laboratories (MRLs) it supports. The teams will involve chemists, physicists, materials scientists, and engineers.
- The NSF has also initiated a program of rapid turnaround grants for researchers with promising ideas for processing superconducting materials into useful forms, such as wires, rods, tubes, films, and ribbons. This program will provide \$600,000 primarily for research in engineering.
- Together, these programs will bring NSF's total research effort on superconducting materials to more than \$6.5 million in FY 1987.
- Finally, NSF has commissioned a special study by the National Academy of Sciences to review recent progress in superconductivity research and recommend needed actions. The report is scheduled to be completed by mid-summer.

NASA

- NASA, along with NSF and DOE, helped fund a significant breakthrough by University of Houston/University of Alabama scientists in February 1987. Additional NASA plans include: redirecting in-house research at several NASA Centers; collaborating with private firms; and increasing university and industrial involvement in exploring potential space applications.

Commerce

- National Bureau of Standards scientists are working on two major scientific problems related to superconductivity:

- 1) how to fabricate superconductive material in pliable form as opposed to its present ceramic form which is brittle.
 - 2) how to increase the amount of electric current that can be carried by the high temperature superconducting material.
- ° The Patent Office reports that hundreds of inventions in the superconductor field have been patented over the years. However, following the recent dramatic breakthrough in this area only two patent applications have been identified, as of 2 months ago. Both were filed in November 1986, and both were of Japanese origin. Others, if any, filed in the last 2 months may be in a "pre-processing" status.

Other Countries

- ° The present superconducting technology is available throughout the industrial world (U.S., Japan, Western Europe, Soviet Union, China) and work on new superconductors is proceeding in all these countries.
- ° The high temperature superconductivity discovery in Houston meshes well with technology Japan has worked on for years.
 - Japan has been developing an experimental train using superconductivity; it travels at more than 250 mph while hovering five inches above a track on a magnetic cushion created by superconducting coils.
 - Japan's shipbuilders have spent \$23 million to erect a fast ship propelled by superconducting magnets.
 - NEC and others have produced prototypes of superconducting computer chips.
 - Japan supplies the U.S. with superconducting wire.
 - MITI hopes to have a working model of a superconducting power plant by 1992.
- ° Eleven days after the February announcement in Houston of the high temperature superconducting breakthrough, Japan's Science and Technology Agency had in place a research consortium of companies, universities and government labs. The government agency " . . . gathered all the leading edge researchers in superconductivity in Japan . . . to share information and decide how to move." It is reported that "the objective is to organize industry to get the jump on the West in applications and commercialization for a huge new market."

- The Soviet Union has worked on superconducting for many years, particularly in seeking a means for low loss transmission lines.

Additional Federal Initiatives

Potential commercialization of emerging superconducting technology depends not only on significant additional scientific developments enabling commercial application of these materials, but also the speed at which processes are subsequently developed by the U.S. private sector to mass produce new and improved products using the technology.

- Bipartisan legislation, H.R. 2069, introduced April 9, would establish a four-month national commission on commercialization of superconductivity technology. The Congressional Office of Technology Assessment is planning a study on the issue as well.
- OSTP in conjunction with the Department of Energy is planning a government-industry conference this summer targeted towards the commercial application of superconductors. In addition the Federal Coordinating Council for Science, Engineering and Technology (FCCSET) will coordinate interagency technical activities involving superconducting materials and their applications. FCCSET, chaired by the President's Science Advisor, was created by the National Science and Technology Act of 1975, and has as members the heads of eleven Federal Departments and agencies responsible for science and research and development: USDA, DOE, DOC, DOD, HHS, DOI, State, DOT, EPA, NASA and NSF.

Areas for further study by the Working Group on R&D include:

- Develop a plan to use this issue to test and publicize the Executive Order;
- National initiative to highlight U.S. progress in superconductivity and encourage U.S. commercialization and collaboration efforts;
- Clarification of intellectual property rights protection both in the U.S. and abroad for superconducting discoveries and options for reform, if necessary. Potential domestic initiatives could include:
 - Priority by the Patent and Trademark Office for handling patent applications and disputes involving superconductivity discoveries;
 - Redoubling efforts to enact H.R. 1155, the

Administration's legislation to remove disincentives for patent licensing, in particular "blocking" or closely related patents;

- Explore the merits of proposing legislation to strengthen the National Cooperative Research Act of 1984 that modified the antitrust treatment of joint R&D ventures. Potential reforms could provide additional protection covering certain advanced development and manufacturing activities.

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U.S. PROPOSAL ON AGRICULTURE IN THE URUGUAY ROUND

U.S. Proposal

1. **DOMESTIC SUBSIDIES:** A complete phase-out of all agricultural subsidies over 10 years.
2. **EXPORT SUBSIDIES:** Freeze and phase-out over 10 years the quantities exported with the aid of export subsidies.
3. **IMPORT ACCESS:** Bind and phase-out import restrictions at the same pace as other subsidies.
4. **HEALTH AND SANITARY REGULATIONS:** Insofar as animal, plant and human health safety are not affected, harmonize health and sanitary regulations. In addition, base domestic regulations on internationally agreed standards and processing and production methods on equivalent guarantees.

The only effective way that these changes can be negotiated is on an aggregate basis, not program by program. This will require the development of some overall indicator of the support that governments provide to producers.

Overlaying the commitment to an aggregate reduction of support might be specific commitments to parallel reductions in support to certain sensitive commodities or the support provided by certain programs. But these would be developed within, and complement, the overall elimination commitment.

Once the broad agreement is reached, each country would be responsible for developing and tabling a plan that would lay out in detail exactly how the country would adjust policies to meet its commitments.

The measuring baseline for elements 1-3 would be the Punta del Este meeting. Credit would be given for measures taken since Punta del Este which have contributed to a reduction in the imbalance between production and demand and have advanced the above objectives.

Conversely, countries would receive "debits" for measures that have worsened the situation since Punta del Este. Such countries would be expected to roll these measures back before receiving credit for other reductions.

Transitional rules pertaining to enforcement, escape clause actions, etc. will be necessary. One such escape clause would be to allow countries to use income support payments, unrelated to reproduction of specific products, during the phase-down period to ease structural adjustment.

At the end of the 10-year period, the market oriented trading environment which the United States seeks for agriculture will be

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accomplished and ready to be built into the GATT. This will require a modification of present GATT rules and may in some cases result in tougher rules than on industrial products.

NOTE: Some have suggested that for presentational purposes we should refer to the Punta del Este language on subsidies in setting out our proposal. If we did so, the proposal would be:

AGRICULTURAL SUBSIDIES: A complete phase-out of all agricultural subsidies, direct and indirect, over 10 years.

In addition, superimpose specific disciplines on:

EXPORT SUBSIDIES: Freeze and phase-out import restrictions at the same pace as overall agricultural subsidies.

Those who favor this style of presentation feel that domestic interests are less likely to believe that export subsidies can be carved out and the rest will fall by the wayside. In addition, the Europeans would be more receptive because it doesn't single out export subsidies independent of domestic subsidies.

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**STRATEGY FOR BUILDING SUPPORT FOR THE U.S. PROPOSAL ON AGRICULTURE
IN THE URUGUAY ROUND**

The U.S. proposal on agriculture in the Uruguay Round is bolder and more far reaching than even the most sympathetic supporters of agricultural reform can probably envision at this moment. For this reason, we need to take advantage of opportunities that we have to construct a solid foundation for the eventual tabling of the proposal in the GATT. The OECD Ministerial and the Summit, in particular, present such opportunities. We need to begin to actively sell our ideas in this process.

QUADRILATERAL TRADE MINISTERS MEETING -- TOKYO -- APRIL 24-26

Some useful discussions on agriculture took place at this meeting. Canada, in particular, was very supportive and helpful.

Japan has now agreed, as a result of the Quad meeting, bilateral talks and trade actions, to place its agricultural program, including rice, on the negotiating table in the Uruguay Round, provided that other countries do the same.

**MEETING OF URUGUAY ROUND AGRICULTURAL NEGOTIATING GROUP--
GENEVA--MAY 5-6**

The U.S. delegation will attempt to ensure that the Secretariat draws on material from the OECD Synthesis Report in defining the problem in agriculture. The OECD work will be derestricted on May 13.

We intend to introduce the analysis prepared by USDA's Economic Research Service on producer and consumer subsidy equivalents for discussion. This replicates and updates work done in the OECD which could serve as a comprehensive measurement for negotiations on direct and indirect subsidies in the Uruguay Round.

At this session of the negotiating group on agriculture we will table a list of principles to govern world trade in agricultural products. This is a requirement of the 1987 work program.

OECD MINISTERIAL MEETING -- PARIS -- MAY 12-13

Our objective is to obtain an agreed Communique which:

Endorses the description of the problem in agriculture as presented in the Synthesis Report,

Accepts the conclusions of the Synthesis Report i.e. an

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internationally coordinated effort to reduce incentives to production is urgently needed,

Reaffirms the commitment of Trade Ministers at Punta del Este and agrees that work and methodology of OECD studies under the Agricultural Trade Mandate be considered as a basis for negotiations in the Uruguay Round,

Urges that individual countries pursue policies consistent with the objectives of Punta del Este and recommends that account be taken of measures to this end in the Uruguay Round negotiations.

We have deliberately avoided language on pledges or commitments in the Communique because we want the negotiations on agriculture to take place in the GATT where multilateral commitments can be made.

The latest draft of the Communique, prepared by the OECD Secretariat, is attached together with detailed comments on its contents.

CAIRNS GROUP -- MAY 20-22

The United States is usually invited to give a statement at these meetings. This time we should encourage the Cairns Group to accept our broader goals of working toward a market oriented environment for agricultural trade. We don't believe that the Australian proposal does this and we should be prepared to say why. Further, we should explain why it is in the interests of the Cairns Group to support this broader objective. Because of the Minister level of this meeting, we should send Washington representatives.

SUMMIT MEETING--VENICE--JUNE 8-10

We want the heads of State to go beyond the OECD Ministerial recommendations and, in view of the importance of the Uruguay Round negotiations on agriculture, specifically ask Summit governments to closely monitor the negotiations with a view toward reviewing the progress achieved at next year's Summit and to consider what further action to take. The heads of State would, of course, also endorse the OECD analysis and recommendations on agriculture contained in the May OECD Ministerial Communique.

POST SUMMIT

After laying the groundwork for a market oriented agriculture with the Cairns Group, the OECD and others and putting the Summit nations on record that we must multilaterally reduce assistance to agriculture, we will be ready to introduce our proposal at the late June meeting of the GATT Agriculture Group. We will need to take advantage of other events and opportunities thereafter to

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build additional support for our views and keep up the momentum for early results in agriculture. In addition to multilateral endeavors, we should meet bilaterally with Australia and LDCs to sell our ideas.

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1. NAME Michael J. Galt
2. SOCIAL SECURITY NO. _____
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OTHER OECD COUNTRY PROPOSALS

Other OECD member countries will be seeking to tailor the OECD Communique to their liking and needs. What follows is a synopsis of proposals other countries have made, or given us, and our comments.

Australia:

A commitment to halt subsidy escalation and freeze and progressively reduce the gap between administered internal prices and international market prices for farm products. The narrowing of the price gap would be expedited by interim measures aimed at containing supplies and quarantining stockpiles in those countries where internal administered prices remain significantly higher than international prices.

An early reduction in internal administered producer prices for 1987-88. The development of an accepted set of principles to liberalize world agricultural trade through reform of domestic agricultural policies by national governments. Separate farm income support measures wherever possible from producer prices for farm output.

Canada:

Canada has proposed about the same thing as Australia. On import access though Canada seeks a commitment to introduce no new import barriers not mandated by existing legislation.

New Zealand:

New Zealand's objectives are most closely like ours.

Supply-demand imbalances are a symptom; national support policies are the major cause of the problem. Need to reduce direct support. Favors a cease-fire on all subsidized exports. Need to improve conditions for market access through GATT rules. Very much favors the decoupling of price from income support and concerted assistance reduction.

EC:

Existing product surpluses are at the root of trade tensions and must be progressively eliminated. World structural surpluses cannot be permitted to recur. A balanced and progressive reduction of subsidies.

Effective multilateral disciplines must be developed to achieve equitable conditions of competition in agricultural trade. Cease fire on aggressive export practices.

Greater access to markets. Measures taken in the short term should not aggravate the current disequilibrium. Also, there should be reasonable management of stocks.

Japan:

The fundamental cause of the current agricultural problem lies in the oversupply of agricultural products resulting from overproduction. Various price support policies are responsible for this oversupply; however, the different situations of countries and balanced burden sharing should be taken into account. The level of production and degree of distortion on world trade should also be taken into account.

Export subsidies should be addressed first, in the context of short term actions.

Japan contends that it does not fit the mold of other developed countries, in which agricultural policies benefit large farmers, and that Japanese policy is accomplishing social objectives.

Comments:

It is not clear in either the Australian or Canadian proposal whether the marketing boards would be on the negotiating table. These boards exercise a considerable degree of marketing power because of their monopolistic nature. Such boards must be eliminated or their authority restricted so as to eliminate any subsidy element. If they are not, the marketing board operations may provide an advantage to the Canadians and Australians not captured by the price gap measure.

A second area of difficulty is the fact that the Australian proposal, by focusing on prices only, would not include input subsidies (fertilizer assistance, reduced-interest credit, etc.). Fertilizer subsidies in Australia account for about 10 percent of the assistance received by farmers. We would not want to leave significant subsidies untouched, or to leave the door open to substitute input subsidies for current price-support schemes.

Both Australia and Canada would like the U.S. and EC to commit to stock isolation in the short-term, with no comparable commitment or other action required for them.

The EC proposal fails to recognize that the actual root of the surplus problem is government supports. No explicit proposal is made to reduce these supports. The EC language would leave the door open for government control of production and marketing as an alternative to reducing support levels. The language on subsidies is so vague as to leave the door open to any "discipline", including the French market-sharing idea. The EC position also sets the stage for market sharing through stocks management.

Japan's position is that as an importer, it is not as much a part of the problem in world markets, because an importer cannot "overproduce". The Japanese contend that it is the exporters who

are "overproducing" and are primarily responsible for causing world trade problems. The logic is fallacious: agricultural policies do not have different effects that depend on whether a country is an importer or an exporter (twenty years ago the EC would have made the same arguments). While Japan is an importer, it would, in a free market situation, be a much larger importer. The policies which encourage production and reduce consumption through high prices reduce the size of its import market, and contribute importantly to the imbalance between supply and demand in the world market.